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ANNEXES 1 to 7

ANNEXES

to the

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97

ANNEX I

Criteria for setting the technical trajectory for Member States having a public debt above 60% of GDP reference value or government deficit above 3% of GDP reference value

For Member States having public debt above the 60% of GDP reference value or government deficit above the 3% of GDP reference value, the technical trajectory shall ensure that:

(a) by the end of the adjustment period, at the latest, the 10-year debt trajectory in the absence of further budgetary measures is on a plausibly downward path or stays at prudent levels;

(b) the government deficit is brought and maintained below the 3% of GDP reference value in the absence of further budgetary measures over the same 10-year period;

(c) for the years that the Member State concerned is expected to have a deficit above the 3% of GDP reference value, and the excess is not close and temporary, the technical trajectory is also consistent with the benchmark referred to under Article 3 of Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation [X];

(d) the adjustment effort is not postponed towards the final years of the adjustment period, that is to say the fiscal adjustment effort over the period of the national medium-term fiscal-structural plan is at least proportional to the total effort over the entire adjustment period;

(e) the public debt ratio at the end of the planning horizon is below the public debt ratio in the year before the start of the technical trajectory; and

(f) national net expenditure growth remains below medium-term output growth, on average, as a rule over the horizon of the plan.

ANNEX II

Information to be provided in the national medium-term fiscal-structural plans

A national medium-term fiscal-structural plan shall contain the following information:

(a) The national net expenditure path referred to in Article 11. The other budgetary variables outside the control of the government that are part of the definition of net expenditure referred to in Article 2 consist in expenditure on programmes of the Union fully matched by Union funds revenue and cyclical elements of unemployment benefit expenditure.

(b) The projected growth path of government revenue at unchanged policy.

(c) The projected path of the public debt ratio.

(d) Information on implicit liabilities related to ageing, and contingent liabilities with a potentially large impact on government budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof, potential expenses and obligations arising from court cases and, to the extent possible, information on disaster and climate contingent liabilities.

(e) The main assumptions about expected economic developments and main economic variables which are relevant for ensuring consistency with a convergence of public debt towards prudent levels and maintaining the government deficit below the 3% of GDP reference value.

(f) In case the Member State makes use of assumptions referred to under point (e) that differ from the Commission's assumptions over the adjustment period of the national medium-term fiscal-structural plan and the subsequent10-year period in the absence of further budgetary measures, due explanations and justifications based on sound economic arguments of these differences.

(g) An analysis of how changes in the main economic assumptions would affect the budgetary and debt position of the Member State.

(h) If applicable, the duly substantiated reasons (with relevant sound and verifiable economic arguments) for deviating from the technical trajectory put forward by the Commission.

(i) Reform and investment priorities to respond to the main challenges as identified in the country-specific recommendations, taking into account the state of play of implementation of those country-specific recommendations.

(j) Total public investment expenditure, as well as reforms and public investment expenditure addressing the common priorities of the Union referred to in Annex VI.

(k) If applicable, information on a specific, time-bound and verifiable set of reform and investment commitments underpinning an extension of the adjustment period pursuant to Article 13, a timeline for its implementation, as well as sound economic arguments that this set of reform and investment commitments fulfil the criteria under Article 13 taking into account the assessment criteria in Annex VII.

(l) A quantification, as much as possible, of the expected impacts of reforms and investment referred to under point (k) on fiscal sustainability, growth and employment, where applicable in line with commonly agreed methodologies.

(m) The medium-term budgetary and potential medium-term growth impact of those reform and investment commitments referred to under point (k) where possible.

(n) If applicable, reforms and investment to correct the identified macroeconomic imbalances under the Macroeconomic Imbalance Procedure.

(o) The planned overall level of nationally financed public investment covering the period of the national medium-term fiscal-structural plan.

(p) For Member States with low public debt challenges but large implicit liabilities due to population ageing, the national net expenditure trajectory and the reforms in the national medium-term fiscal-structural plans should take due consideration of long-term fiscal sustainability challenges of public finances.

(q) Information on the consultations of social partners, civil society organisations and other relevant stakeholders in view of the preparation of the plan.

ANNEX III

Information to be provided by Member States in the Annual Progress Reports

In their annual progress report, the Member States shall submit the following information:

(a) A comparison between the planned net expenditure based on the net expenditure path set by the Council and the net expenditure based on outturn data.

(b) A comparison from the beginning of the national medium-term fiscal-structural plan between the projections of the main economic variables submitted in that plan and the outturn data for these variables, as well as the implications for compliance with the net expenditure path set by the Council and the implications on the projected path of the public debt ratio reported in that plan.

(c) An analysis of the implementation in the previous year of the discretionary revenue measures.

(d) Progress and the planned implementation for the following year of the commitments to reforms and investment given in the national medium-term fiscal-structural plan under the information to be provided in accordance with Annex II, points (i) and (j), as well as, if applicable, (k) and (n).

(e) Information for the following year on how the Member State intends to address the country-specific recommendations of the previous year, including, where applicable, the recommendation on the economic policy of the euro area.

(f) During the lifetime of the Recovery and Resilience Facility, information on the progress of implementation of the Recovery and Resilience Plan, to comply with the bi-annual reporting requirements in the context of the European Semester set out in Article 27 of Regulation (EU) 2021/241.

(g) Information on the evolution of contingent liabilities reported in the national medium-term fiscal-structural plan and referred to in Annex II, point (d), as well as of the implicit liabilities related to ageing, where relevant, and information on the contingent liabilities and the implicit liabilities for the following year.

(h) The main assumptions about expected economic developments and main economic variables for the following years of the adjustment period, including the public debt ratio.

(i) The projections at unchanged policies for the following years of the adjustment period for government expenditure and revenue and their main components, including public investment expenditure.

(j) The planned government expenditure and revenue as a percentage of GDP and their main components for the following years of the adjustment period, taking into account the net expenditure path set by the Council.

(k) A description and quantification of the expenditure and revenue measures to be implemented to bridge the gap between the projections at unchanged policies for expenditure and revenue referred to in point (i) and the planned expenditure and revenue referred to in point (j).

(l) An analysis of the evolution of the macroeconomic imbalances identified under the Macroeconomic Imbalance Procedure and of the impact on them of the implementation of the relevant reforms and investment reported in the national medium-term fiscal-structural plan in accordance with Annex II, point (n), where applicable.

(m) Information on the implementation of a warning by the Commission or a recommendation by the Council pursuant to Article 121(4) TFEU.

(n) Information on labour market, skills and social policy developments, and on the implementation of policy measures taken that foster upward social convergence among Member States towards better working and living conditions, in line with the principles of the European Pillar of Social Rights and the Employment Guidelines under Article 148 TFEU. That includes the expected impact of measures, in relation to progress on the national targets on employment, skills and poverty reduction by 2030.

(o) The assessment of the independent fiscal institutions referred to in Article 22.

ANNEX IV

Functioning of the Control Account

The control account for each Member State referred to in Article 21 will record a debit when the actual net expenditure in the Member State in a given year is above the net expenditure path set by the Council.

The control account will record a credit when the actual net expenditure in the Member State in a given year is below the net expenditure path set by the Council.

The cumulated balance of the control account in a given period is the sum of the yearly debits and credits registered during that period.

ANNEX V

Methodology to assess plausibility by the Commission

The methodology for the assessment of plausibility pursuant to Article 8 is based on the following conditions:

- public debt ratio should be declining, or stay at prudent levels, under the deterministic scenarios of the Commission's medium-term public debt projection framework described in the Debt Sustainability Monitor 2022;
- the risk of the public debt ratio not decreasing in the 5 years following the adjustment period of the national medium-term fiscal-structural plan is sufficiently low. The risk is assessed with the help of the Commission's stochastic analysis.

ANNEX VI

Common priorities of the Union

The common priorities of the Union referred to in Article 12, point (b) are:

(a) The European Green Deal[1], including the transition to climate neutrality by 2050[2] and the translation at national level through the National Energy and Climate Plans;

(b) The European Pillar of Social Rights[3] including the related targets on employment, skills and poverty reduction by 2030;

(c) The Digital Decade Policy Programme 2030[4], and reflected at national level through the National Digital Decade Strategic Roadmaps;

(d) A Strategic Compass for Security and Defence - For a European Union that protects its citizens, values and interests and contributes to international peace and security.[5]

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1 Communication COM(2019) 640 final of 11 December 2019 from the Commission 'The European Green Deal' and Decision (EU) 2022/591 of the European Parliament and of the Council of 6 April 2022 on a General Union Environment Action Programme to 2030 (OJ L 114, 12.4.2022, p.22).

2 Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law').

3 (2017/C 428/09) Interinstitutional Proclamation on the European Pillar of Social Rights (OJ C 428, 13.12.2017, p. 10).

4 Decision (EU) 2022/2481 of the European Parliament and of the Council of 14 December 2022 establishing the Digital Decade Policy Programme 2030 (OJ L 323, 19.12.2022, p. 4).

5 Council of the European Union, COPS 130.

ANNEX VII

Assessment framework for the set of reform and investment commitments underpinning an extension of the adjustment period

1. Scope

The purposes of this assessment framework is to serve:

– as a basis for the Commission to assess whether the set of reforms and investment commitments included in the national medium term fiscal structural plans underpinning an extension of their adjustment period meet the criteria set out in Article 13(2). This assessment framework represents thus the basis for the application of the assessment criteria as referred to in Article 13(2) with a view to ensuring an equitable and transparent process;

– as a basis to assess whether each of those reform and investment commitments fulfil the conditions set out in Article 13(3). This assessment framework represents thus also the basis for the application of the conditions as referred to in Article 13(3), for the same purpose.

2. Assessment criteria

In accordance with Article 13(2), the set of reforms and investment commitments included in the national medium term fiscal structural plans underpinning an extension of the adjustment period shall be commensurate with the degree of public debt challenges as established in the most recent update of the Debt Sustainability Monitor and challenges to medium-term growth in the Member State. For Member States where public debt challenges are linked to significant challenges to medium-term growth, the set of reforms and investments is expected to also address bottlenecks to medium-term growth.

The set of reforms and investment commitments shall fulfil, taken altogether, the following criteria:

2.1 The set of reform and investment commitments are growth-enhancing;

– The set of reform and investment commitments are expected to entail, based on credible, well documented and prudent assumptions, a significant boost to the growth potential of the economy of the Member State concerned in a sustainable manner;

2.2 The set of reform and investment commitments support fiscal sustainability;

– The set of reform and investment commitments are expected to entail a significant structural improvement of public finances over the medium-term, by structurally reducing public expenditure or increasing public revenue, of the Member State concerned.

2.3 The set of reform and investment commitments address priorities of the Union referred to in Annex VI;

– The set of reform and investment commitments contribute significantly to at least one of the priorities of the Union referred to in Annex VI;

2.4 The set of reform and investment commitments, taken altogether, addresses relevant country-specific recommendations, including, where applicable, recommendations issued under the Macroeconomic Imbalance Procedure;

– The set of relevant reform and investment commitments underpinning the extension of the adjustment period, taken altogether is expected to address challenges identified in the relevant country-specific recommendations, including the recommendations issued under the Macroeconomic Imbalance Procedure where applicable, taking into account the scope and

scale of the country-specific challenges and the commitments made under the Recovery and Resilience Plans, where relevant;

2.5 The set of reform and investment commitments ensure that the overall level of nationally financed public investment over the lifetime of the national medium-term fiscal-structural plan is higher than the medium-term level before to the period of that plan

– Whether the planned level of nationally financed public investment over the lifetime of the plan is higher than the medium-term level before to the period of the plan.

In addition, each of the reform and investment commitments made by Member States underpinning an extension of the adjustment period should be sufficiently detailed, frontloaded, time-bound, and verifiable.

– the description of the reform and investment commitments is clear and sets out the detailed elements of each reform and investment, that allows the Commission to assess the criteria in points 2.1-2.5, including regarding their implementation, and monitoring;

– the reforms will be implemented within the plan period;

– the investments will be implemented at the latest by the end of the adjustment period;

– the national medium-term fiscal-structural plan includes clear and realistic, relevant, and robust indicators allowing to verify progress with effective implementation of the reform and investment commitments.